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III. CURRENCY

A. Currency System

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The Communist paper currency, Jen-min-p'iao (People's Bank notes)[15] was first introduced upon the establishment of the People's Bank of China in December 1948. The only legal tender, it was first issued in denominations of 1, 5, 10, 20, 50 and 100 yuan. On March 1, 1955, all old notes were called in and replaced by new People's Bank notes at the rate of ten-thousand to one. All obligations and liabilities, including those of the government, were scaled down in a similar fashion. Denominations of the new currency are 1, 2, 3, 5, and 10 yuan, and there is subsidiary currency of 1 chiao (10 cents), five chiao, 1 fen (1 cent), 2 fen, and 5 fen. No 10-yuan notes are to be issued at this time.

People's Bank notes are not backed by metallic or foreign-currency reserves, have no legal reserves, and cannot be converted into foreign currency. The Communists first claimed reserves in the form of food and cotton cloth, and later explained that the notes were backed by the balance of budget receipts and

15. Monetary Affairs of Communist China, p. 65.

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436 payments, the balance of supplies, and of
652 foreign trade. When translated into the language of a capitalist economy, this means that the stability of the currency is secured by excessive imposition, controlled distribution of supplies, forced concentration of cash funds in government banks, and exports made possible by domestic starvation.

B. Currency Control

People's Bank notes had been stabilized before China's economy was fully controlled. As had been true with previous currencies, the new currency also underwent its acid test in the Shanghai market. Issue of the People's Bank notes began in Shanghai in June 1949, at PB$ 1 for 100,000 Nationalist dollars. One silver dollar was redeemable by PB$ 1,200, and all gold, other silver, and all foreign currenc was prohibited from circulating. The first reaction in Shanghai was unfavorable, with gold, silver, and hard currency prices soaring; this reaction spread throughout the whole country.

In November of 1949 the rate per silver dollar was raised from PB$ 1,200 to PB$ 2,000, while the black-market rate rose from PB$ 2,800 to PB$ 4,500 from July to November 1949. United States Dollar notes similarly increased in the same period from PB$ 2,000 to $6,700 on the official counter and from PB$ 2,800 to

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436 $3,000 in July, to $17,000 on the black market
652 in November.[16] The price of rice multiplied nine times from May 30 to November 8; the curb interest rate increased from 36 per cent per annum in July to 100 per cent in November.[17]

Acting to slow this inflation, the Communists imposed strict controls on jewlers, whose customers had to furnish all materials, who were forced to make detailed reports of all transactions; hundred of illegal operators and loan sharks were arrested; all exchange shops and gold shops were closed. The government collected some essential materials for dumping on the market, and party cadres on every commodity market enforced government fixed prices. These measures slowed inflation but did not stop it; the end-of-1949 price index was thirty times that of May 1949. People's Bank notes were stabilized for the first time when the government announced its nearly balanced budget for 1950, and when an issue of Victory Bonds forced the expenditure of surplus purchasing power.

The initial stability of the People's Bank notes was nearly broken by China's participation

16. Far Eastern Economic Review, Hong Kong, Dec. 1, 1949, pp. 702-703.
17. Ibid., Feb. 2, 1950.

• 486 652 in the Korean War and the resulting budget deficit. But the inflationary pressures were quite successfully suppressed by a web of controls covering the entire economic life of the people.

Between January 1950 and February 1955, the pubchasing power of People's Bank notes steadily declined. Measured by parity unit, PB$ 14,055 in January 1950 had the same purchasing power as PB$ 24,829 in February 1955. The value of People's Bank notes, in comparison with the Hong Kong dollar, declined approximately 16 per cent in the same period (January 1950, PB$ 3,498 = one Hong Kong dollar; in February 1955, PB$ 4,270 = one Hong Kong dollar).[18]

The main instrument of currency control was the reduction of currency in circulation by forcing people and organizations to open bank accounts, restricting the cash they might hold, and the promotion of savings deposits. The most ruthless and also the most effective measure for reducing currency circulation was the extraction of personal savings by force. Of the issue of Victory Bonds of US$ 70 million, about 45 per cent was allocated to East China.

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18. Ibid., Feb. 2, 1950, p. 159; and March 3, 1955, p. 282.

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436 652 A donation campaign begun by the Communists in 1951 drew the equivalent of US$ 220 million, or 40 per cent of the total expected from East China. The Three-Anti Campaign to eradicated graft and corruption, and the Five-Anti Campaign to prohibit illicit profits made by private capitalists, involved some 100,000 public servants and 450,000 owners of private enterprises, from whom an enormous amount of fines was extracted. Crowds swarmed into the People's Bank in Shanghai early in 1952 to convert their hoarded gold into notes in order to pay their fines, and virtually all private gold hoards in the cities were wiped out at that time.

The reconstruction loans issued in the period 1935-55 were designed to gain control of excess savings of the workers and the peasants and were not directed primarily toward the well-to-do.

IV. PEOPLE'S REACTION TOWARD COMMUNIST CURRENCY

436 Paper currency first became acceptable in East China, particularly south of the Yangtze River, because foreign notes were frequently brought back to Amoy by overseas Chinese. But the preference for precious metals and hard currencies has never been abandoned, and the preference was strengthened by the collapse of the Nationalist currency. The Chinese people have no more confidence in Communist currency

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436 than in any other paper currency.

In spite of the outflow of large quantities of gold to Hong Kong immediately before the Communists overran China, and the large surrender of gold during the Three-Anti and Five-Anti campaigns, the people south of the Yangtze still hold some gold, and the people in Shantung and northern Anhwei still hoard some silver. Reports indicate that gold is being smuggled to Amoy and Shanghai from Hong Kong.

The current value of People's Bank notes is reflected on the black market in Hong Kong, where its value fluctuates according to conditions on the China Mainland. Just before the war in Korea, People's Bank notes were selling at a price approximating the official rate. Just before the issue of the new currency in 1955, the quoted value was approximately 63 per cent of par; just after the new issue, the value rose to approximately 80 per cent of par. Inconsiderable black market currency transactions continue between Hong Kong and the Mainland. In spite of their success in forcing the Chinese people to trade in People's Bank notes, the Communists cannot build confidence in paper currency as a medium of exchange. The post war trust in gold, silver, or hard foreign currency is hard and fast as the business communities desire to return to a system of free enterprise.